

Docket:	:	<u>A.04-09-019</u>
Exhibit Number	:	
Commissioner	:	<u>Michael R. Peevey</u>
Admin. Law Judge	:	<u>Bertram Patrick</u>
ORA Project Mgr.	:	<u>Francis W. Fok</u>



**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Review of 2005 Preconstruction Costs
of the
California American Water Service
Coastal Water Project**

Application Number
A.04-09-019

*San Francisco, California
June 19, 2006*

DRA Audit Report on the California American Water Company Coastal Water Project 2005 Preconstruction Costs

A. Introduction

This Report presents the results of DRA's review of the accounting books and records of California American Water Company (Cal Am). This review was performed in connection with Cal Am's application for a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to resolve the long term water supply deficit in its Monterey District and to recover all present and future costs in connection therewith in rates (A. 04-09-019).

B. Summary of Recommendations

After Cal Am eliminated \$521,245 in costs it stated could be interpreted as advocacy cost from its original request, DRA's review found no additional audit adjustment to Cal Am's requested Preconstruction Costs and Public Outreach expenses that were booked through 2005 as reflected in Cal Am's supplemental testimonies filed on April 4 and April 13, 2006. DRA's audit was limited to reviewing whether expenses claimed by Cal Am were properly accounted for and whether Cal Am requested recovery of costs that were the type regularly disallowed by the Commission. DRA's audit did not address the question of whether Cal Am's booked expenses were excessive or reasonable for Cal Am's served ratepayers. This issue is addressed by DRA witness Diana Brooks.

C. Audit Scope and Objective

The scope of this review covered the period when the Coastal Water Project began, from 2004 through 2005. DRA's examination was limited due to time and staff resources available. DRA focused on Cal Am's requested recovery of \$8.67

1 million of Pre-construction Costs and Public Outreach expenses in Special Request
2 1 in this application.¹ DRA conducted the first part of its audit in the first quarter
3 of 2005 when Cal Am initially requested recovery of preconstruction costs in its
4 Monterey District General Rate Case (A.05-02-012). The remainder of the audit
5 was primarily conducted in the first quarter of 2006.

6 The objective of DRA's review was to determine whether the expenses claimed
7 by Cal Am were properly accounted for and whether Cal Am was seeking recovery
8 of costs that were the type regularly disallowed by the Commission. Two review
9 procedures were used. First, DRA reviewed the charges by selective testing for
10 verification of appropriate accounting and ratemaking purposes. Second, DRA
11 reviewed Cal Am's work papers, interviewed Cal Am's officers and employees,
12 and reviewed selected contracts Cal Am had with consultants.

13 **D. DRA Audit Findings**

14 Cal Am requests a total of \$8,674,659 for 2005. This number includes \$7,539,631
15 for Preconstruction Costs and \$1,135,028 for Public Outreach as presented on the
16 next page²:

¹ Cal Am Further Supplemental Testimony of Fred Feizollahi (Corrected), April 17, 2006, Table 2.

² Data supplied by Fred Feizollahi, Cal Am, via email on May 23, 2006.

Preconstruction Costs

		Recovery Request for Costs through 2005
Engineering and Environmental		
Consulting, Hydrogeology	Padre Assoc; Feeney, Martin; Mont Pen Water	\$14,864.77
Consulting, Engineering/PEA Preparation	RBF Consulting	\$4,549,193.91
Analytical Laboratory	Monterey Bay Analytical	\$2,024.90
Consulting	Norris Associates	\$315.00
Consulting	Williams Scotsman Inc	\$0.00
	Dell	\$0.00
	Insight Direct (Peripherals)	\$568.80
Pilot Plant Studies & Pilot Plant Equipment	Pridesa	\$1,076,074.56
Consulting, Right-of-Way	Dana Property Analysis	\$27,031.25
CPUC Filing		<u>\$177,545.00</u>
	Subtotal	\$5,847,618.19
Project Management, CAW & Misc Expense		
Company Labor & Overhead		\$639,197.42
Misc Project Expense		\$20,659.32
Pcard, Employee expense		\$13,666.00
Office Supplies	Office Max	\$334.50
Temporary Personnel Services	Volt Services Group	\$19,989.91
Temporary Personnel Services (clerical)	Office Team	<u>\$15,088.50</u>
	Subtotal	\$708,935.65
Legal and Administrative		
Legal, Environmental	Allen Matkins Leck Gamble	\$355,428.22
Legal, CPUC Matters	Steefel, Levitt & Weiss	\$337,912.42
Legal, Water Rights	Somach, Simmons & Dunn	\$63,183.48
Consulting, Management & Strategy	Nossaman, Guthner, Knox, Elliot	<u>\$226,553.25</u>
	Subtotal	\$983,077.37
TOTAL		\$7,539,631.21

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Public Outreach³:

Public Outreach		Recovery Request for Costs through 2005
Consulting, NGO Interface	Energy Resources Inter	\$251,801.08
Consulting, Community Opinion Survey	Decision Research	\$0.00
Consulting, Community Outreach	Green Stripe Media, Inc.	\$125,087.00
Consulting, Public Outreach	Integrated Resource Mgt LLC	\$7,750.00
Consulting	Southwest Strategic	\$4,000.00
Consulting, Public Outreach	Woodenship	\$177,286.21
Consulting	Direct Impact	\$4,920.34
Consulting	ES Rock Partners	\$10,905.22
	Dan Siwulec Communications	
Consulting	Mar	\$26,424.99
Consulting	Bob Nelson Associates	\$0.00
Consulting	McCabe & Co	\$0.00
Consulting, Management	Albright Group LLC	\$0.00
Consulting, Community Outreach	Armanasco Public Relations	\$526,853.39
TOTAL		\$1,135,028.23
2005 GRAND TOTAL		\$8,674,659.00

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1. Were the expenses claimed by Cal Am properly accounted for?

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DRA tested various preconstruction costs and public outreach expenses booked by Cal Am. The tests were random. The review consisted of ensuring proper recording by comparing the recorded amounts to the amounts shown on the invoices. The tests found that all selections were adequately supported by invoices or for labor, by hours spent. Based on the audit procedures performed, DRA found no audit exceptions to the expenses booked by Cal Am.

³ Data supplied by Fred Feizollahi, Cal Am, via email on May 23, 2006.

1 **2. Was Cal Am requesting recovery of costs regularly disallowed by**
2 **the Commission?**

3 DRA selected certain contracts Cal Am had with the consultants in the Legal
4 and Administrative and Public Outreach categories for review. The objective of
5 DRA's review was to check whether any of the expenses Cal Am was seeking
6 recovery of were of the type the Commission regularly disallowed. DRA
7 suspected some of the consultant services may have included lobby costs that
8 should not be funded by ratepayers.⁴

9 DRA questioned the overall purpose of the Public Education and Outreach
10 expenses. Cal Am explained that "the goal of its community outreach was to
11 provide public access to information regarding the study, design and development
12 of the Coastal Water Project (CWP)." ⁵ Diana Brooks will address DRA's
13 recommendation on whether the public education and outreach program served a
14 legitimate public education function or was more in the nature of advocacy.

15 **3. DRA's review of Cal Am expenses resulted in Cal Am voluntarily**
16 **reducing its request by \$521,245.**

17
18 DRA's review selected certain contracts Cal Am had with consultants in the
19 public outreach program for further examination. These firms included the
20 Albright Group, Armanasco Public Relations, Bob Nelson and Associates, Decision
21 Research, Energy Resources International, McCabe and Company, Nossman,
22 Gunther, Knox & Elliot, and Woodenship Advertising and Public Affairs.⁶ Many
23 of these firms were identified when DRA conducted the first part of its audit last
24 year when Cal Am initially requested recovery of preconstruction costs in its
25 Monterey District General Rate Case (A.05-02-012). DRA was concerned about the

⁴ Lobbying and legislative advocacy costs disallowed, D. 96-01-011.

⁵ Cal Am's response to DRA Data Request FWF 1-6.

⁶ Cal Am classifies Nossman, Gunther, Know and Elliot under Legal Expenses. However, the amounts withdrawn related to advocacy efforts.

apparent lobbying nature of some of the work conducted by these consultants. DRA's onsite portion of the audit in Cal Am's Sacramento headquarters in early March 2006 paid particular attention to contracts and invoices from these firms. DRA interviewed company personnel on the nature of the services these companies performed. On April 4, 2006, Cal Am voluntarily withdrew \$521,245 from its total preconstruction cost request for 2005, including some or all of the expenses from each of the above-listed firms. The following table delineates the reductions made:

Total Cal Am voluntary reduction of 2005 Public Outreach & Legal expenses:

Vendors	Total through 2005 prior to reduction	Cal Am Reductions through 2005	Net Outreach expenses	Net Legal & Admin
Albright Group, LLC	\$168,380	-\$168,380	\$0	
Armanasco Public Relations	\$566,807	-\$39,954	\$526,853	
Bob Nelson & Associates	\$0	\$0	\$0	
Decision Research	\$24,532	-\$24,532	\$0	
Energy Resources International	\$271,264	-\$19,463	\$251,801	
McCabe & Company	\$56,603	-\$56,603	\$0	
Nossman, Gunther, Knox & Elliott	\$412,753	-\$186,200	\$0	226,553
Woodenship Advertising	\$198,286	-\$21,000	\$177,286	
Green Stripe Media Inc.	\$125,087		\$125,087	
Integrated Resources Mgt LLC	\$12,862	-\$5,112	\$7,750	
Southwest Strategic	\$4,000		\$4,000	
Direct Impact	\$4,920		\$4,920	
ES Rock Partners	\$10,905		\$10,905	
Dan Siwulec Communications	\$26,425		\$26,425	
Totals	\$1,882,824	-\$521,244	\$1,135,027	

Cal Am explained to DRA how the reduction was determined:

The decision to exclude certain costs was fact-specific, but in general California American Water excluded costs related to one-on-one meetings with elected officials, meetings with local media about the political aspects of competition with Pajaro Sunny Mesa on the right to building the regional desalination plant and much of the later work done by Margaret Catzen-Brown. California American Water attempted to

1 remove costs that were only indirectly related to educating the
2 community about the Coastal Water Project. Although California
3 American Water feels that the removed costs are justified and
4 legitimately connected to the Coastal Water Project community outreach
5 program, it recognizes that these costs could be construed as advocacy
6 and therefore not recoverable from ratepayers.⁷
7

8 Please see Appendix A for a description of charges that were removed.

9 **E. DRA Audit Conclusion**

10 After Cal Am made a \$521,245 reduction in its original request for recovery of
11 legal and public education and outreach costs that it identified could be construed
12 as advocacy, DRA's review found no additional audit adjustments to Cal Am's
13 requested Preconstruction Costs and Public Outreach expenses. DRA's audit
14 conclusion is limited to the questions of whether the expenses were properly
15 accounted for and whether Cal Am was seeking recovery of costs that were the
16 type regularly disallowed by the Commission. DRA audit did not address the
17 question of whether Cal Am's expenses were excessive or reasonable for Cal Am's
18 served ratepayers. This issue is covered by DRA witness Diana Brooks.
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⁷ Cal Am's response to DRA Data Request FWF 5-1.

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2 **F. Appendix A – List of Costs Removed from Public**

3 **Information Recovery Request for 2005**

4 In his April 4, 2006 Supplemental Direct Testimony, Cal Am witness Tilden

5 explains that Cal Am decided not to seek recovery of approximately \$521,245 in

6 costs related to our community outreach program. The costs Cal Am decided not

7 to seek recovery of include:

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9 1) **The Albright Group, LLC.** Total of \$168,379.60 in invoices have been

10 removed from this case. This is all of the Albright Group invoices, from

11 June 23, 2003-December 23, 2004, inclusive of all time and expenses

12 billed.

13

14 2) **Armanasco Public Relations.** Total of \$39,953.60 in time billed on bills

15 between November 18, 2003-April 29, 2005. We understand that either

16 what certain time was billed for, or how that time was characterized on

17 billing records, could be cause for concern and therefore removed these

18 expenses from our request for recovery. The time entries primarily

19 include direct contact with individual elected officials, work on specific

20 legislation, or other work that could be construed as advocacy or

21 lobbying.

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23 3) **Bob Nelson & Associates.** \$300.00 for Felton GRC Evidentiary

24 Hearing Notice. This was for advertising placement of a GRC notice, and

25 was billed incorrectly, and has been removed from the case.

26 4) **Decision Research.** Total of \$24,532.31 in invoices have been removed

27 from this case. This is all of the invoices from Decision Research,

28 inclusive of all time and expenses billed.

29

30 5) **Energy Resources International.** \$19,463.10 in total time on bills

31 between July 6, 2004 and June 30, 2005. These are various time entries

32 that include direct contact with elected officials, work on the San

33 Clemente Dam project or other things we do not seek to recover in this

34 case.

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1 6) **McCabe & Company.** Total of \$66,603.31 in invoices have been
2 removed from this case. This is all of the invoices from McCabe &
3 Company, inclusive of all time and expenses billed.
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5 7) **Nossman, Gunther, Knox & Elliott, LLP.** As mentioned above, when
6 Ms. Catzen-Brown was serving as Project Director, her work was in
7 support of the overall project and should be recoverable. When she left
8 that role (December 2003) we understand the concern that her work may
9 have been primarily advocacy and therefore removed from our request
10 almost all costs from Nossaman beginning in January 2004. These
11 invoices total \$139,118.36. Additionally, even while Ms. Catzen-Brown
12 was serving as project director, there are certain billing entries on time
13 sheets that could be misconstrued and for which California American
14 Water has elected not to pursue recovery. These removed costs total
15 \$47,081.46.
16

17 8) **Woodenship Advertising and Public Affairs.** \$21,000 for Seaside
18 Basin Consulting Fees. This invoice was incorrectly coded and has been
19 removed from this case.⁸
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⁸ Supplemental Direct Testimony of Kevin A. Tilden, April 4, 2006, pp 4-6.

1 **QUALIFICATIONS AND PREPARED TESTIMONY**

2 **OF**

3 **FRANCIS W. FOK**

4
5 Q.1. Please state your name and business address.

6 A.1. My name is Francis W. Fok. My business address is 505 Van Ness Ave., San
7 Francisco, CA 94102.

8 Q.2. By whom and in what capacity are you employed?

9 A.2. I am employed by the California Public Utilities Commission as a Financial
10 Examiner IV in the Energy Cost of Service Branch of the Division of Ratepayer
11 Advocates.

12 Q.3. Please describe your educational and professional experience.

13 A.3. I graduated from the University of California, Berkeley, with a Bachelor of
14 Science Degree from the School of Business Administration, with a major in
15 Accounting and Finance. I am a Certified Public Accountant in the State of
16 California. Since joining the Commission, I have prepared various reports and
17 testified numerous times as an expert witness before the Commission.

18 Q.4. What is your area of responsibility in this proceeding?

19 A.4. I am sponsoring this report on the DRA Audit of 2005 Preconstruction Costs
20 and Public Outreach Expenses for the Coastal Water Project of California
21 American Water Company.

22 Q.5. Does this complete your testimony?

23 A.5. Yes it does.